

Derby City Council

## Audit results report

Year ended 31 March 2018

August 2018

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

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working world

3 August 2018



Dear Audit & Accounts Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit & Accounts Committee. This report summarises our preliminary audit conclusion in relation to the audit of Derby City Council for 2017/18.

We have substantially completed our audit of Derby City Council (the Authority) for the year ended 31 March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3. We also have matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources which are discussed in section 5 of this report.

This report is intended solely for the use of the Audit & Accounts Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit & Accounts Committee meeting on 8 August 2018.

Yours faithfully

Steve Clark

Partner

For and on behalf of Ernst & Young LLP

Encl

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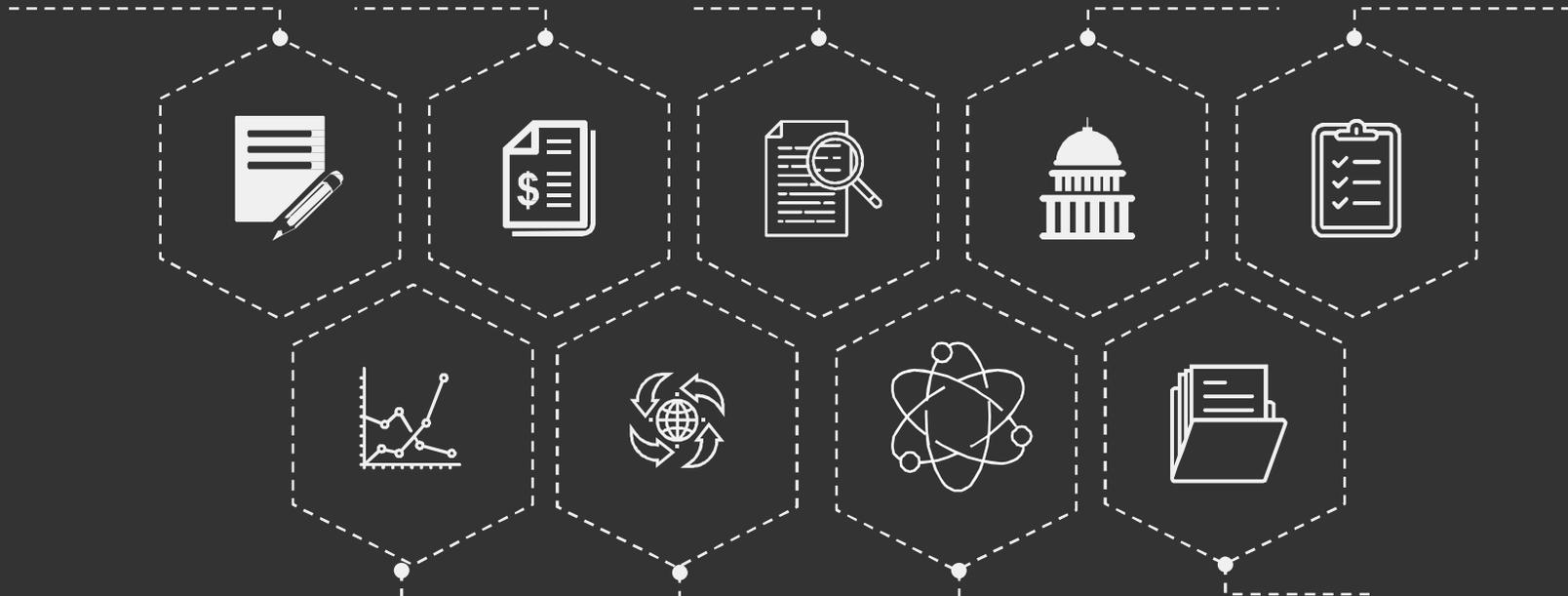
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit & Accounts Committee and management of Derby City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit & Accounts Committee, and management of Derby City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit & Accounts Committee and management of Derby City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

## Executive Summary

# Executive Summary

## Scope update

In our audit planning report presented at the 20 March 2018 Audit & Accounts Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- Changes in materiality: We updated our planning materiality assessment using the draft consolidated results and have also reconsidered our risk assessment.
- Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £6.6m (Audit Planning Report – £7.16m).
- This results in updated performance materiality, at 50% of overall materiality, of £3.3m (Audit Planning Report – £3.6m), and an updated threshold for reporting misstatements of £0.329m (Audit Planning Report – £0.36m).

## Status of the audit

We have substantially completed our audit of Derby City Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3:

- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission
- Completion of audit procedures in respect of:
  - Property, plant and equipment – additions and proceeds on disposal
- Completion of Subsequent event review procedures
- Receipt of a signed letter of management representation
- Receipt and review of final financial statements

# Executive Summary

## Audit differences

We found 3 unadjusted audit differences, which are set out in section 4. Management have chosen to not to adjust for these as they are not material. The largest of these relates to the estimation of Derby City Council's share of the Derbyshire County Council Pension Scheme assets which was understated at the year end. More details can be found on page 14. The other 2 unadjusted differences relate to cut-off of transactions at the balance sheet date where amounts have been recorded in the wrong accounting period. As noted on page 10, cut-off is a particular focus of our work as we identified that the risk of fraud in revenue and expenditure recognition was likely to manifest in inappropriate cut-off at the balance sheet date.

12 differences greater than our reporting threshold were identified which management adjusted for (these are detailed in section 4) and 24 disclosure errors were also corrected.

Of the 12 corrected differences, 5 were identified by management prior to commencement of the external audit, as a result of their own quality control procedures. This demonstrates an improvement in the quality of accounts preparation and review performed by the Council compared to previous years. Without the pressure of the 'faster close' reporting deadlines (see page 16), these could have been corrected prior to publication of the draft statement of account.

The 7 differences identified during our audit procedures which were over our reporting threshold (set out on page 25) are made up of 3 classification differences which have no impact on reported outturn position for the year, Of the remaining errors, 2 are due to penalty parking notice information being inaccurate at the time of accounts production (further discussed on page 17), 1 was the overstatement of an insurance provision which did not meet the recognition criteria, and 1 was in respect of cash balances which should not have been recognised by the Council on conversion of a school to Academy status in the year.

Until our work is complete, further amendments may arise. We will update the Committee should any further adjustments arise from our remaining work.

## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Derby City Council's financial statements. This report sets out our observations and conclusions, including our views, if any, on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit & Accounts Committee.

# Executive Summary

## Control observations

Our audit was not designed to express an opinion on the effectiveness of internal control and as we have adopted a fully substantive approach, we have therefore not tested the operation of controls. As a result of the work undertaken we have identified some deficiencies in internal control as follows:

- Debtors listings provided for audit contained several very old balances dating as far back as 2006. For the most part these were fully provided against, but after over 10 years on the ledger, should be written off.
- We identified a risk of leavers being paid after they have left the Authority's employment. This arose because individuals do not get removed from the payroll system until after the e-form has been reviewed, and there is often a significant delay in review of these forms.
- During our interim procedures, we noted that monthly reconciliations between the payroll system and the general ledger were not being performed on a timely basis. The year end reconciliation was performed for external audit purposes.
- We noted a lack of timely reconciliations between the housing benefits system and the general ledger.
- We noted misstatements in the related party transactions disclosures resulting from incomplete declarations of interest being submitted by Councillors.
- The audit trail retained to evidence appropriate controls in place over the transition from Academy to Open Housing is weak (see page 13).

Further details provided at section 7.

In addition, we raised a number of control observations in June 2017 in our s24 written recommendations to the Council. As part of our 31 March 2018 external audit procedures, we have followed up the Council's progress in addressing these observations and have reported our findings on page 17.

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties.

In our Audit Planning Report we identified six significant risks to our value for money conclusion. Since the publication of our Audit Planning Report, we have identified a further significant risk to our value for money conclusion, being the overspend on the A52 capital project affecting the criterion, 'informed decision making' – specifically:

- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management; and
- Managing risks effectively

We performed the work set out in our audit plan in response to these risks and have concluded that a qualified 'adverse' VFM conclusion continues to be appropriate for the 2017/18 financial year. Details of our findings can be found in section 5 of this report.

# Executive Summary

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## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.

We have followed up on the Council's progress to respond to the statutory written recommendations that we issued in June 2017 and report back our findings in section 2 of this report. Whilst significant progress has been made in the preparation of the 31 March 2018 statement of accounts, there is still progress to be made in terms of embedding a sound system of financial controls as 'business as usual'.

We have no other matters to report.

## Independence

Please refer to Section 8 for our update on Independence.



02

## Areas of Audit Focus



## Areas of Audit Focus

# Significant risk

### Risk of fraud in revenue and expenditure recognition

#### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We considered the specific revenue and expenditure accounts which are impacted by this risk and considered the risk to be focused on fees, charges and other service income, and other service expenditure.

#### What judgements are we focused on?

Having considered the factors for expenditure recognition, we believe the risk is focused on the year-end balance sheet and in particular the completeness and valuation of creditors and the existence and valuation of debtors. We also believe the risk is linked to the existence of capital expenditure arising from the potential to incorrectly capitalise revenue expenditure. There is also the risk of incorrect cut-off in relation to revenue and/or expenditure leading to transactions being reported in the wrong period.

#### What did we do?

- Documented our understanding of the processes and controls in place to mitigate the risks identified, and walked through the processes and controls to confirm our understanding
- Review and tested expenditure recognition policies.
- Review and discussed with management any accounting estimates on expenditure recognition for evidence of bias.
- Sample tested material revenue streams and operating expenditure
- Sample tested additions to property, plant and equipment to test whether the Council has inappropriately capitalised revenue expenditure.
- Tested the cut-off of income and expenditure to ensure transactions are recorded within the correct period to which they relate
- Developed a testing strategy to test material receivables and payables; and
- Performed a search for unrecorded trade payables at period year.

#### What are our conclusions?

- Our testing has revealed several cut-off errors (totalling £810k) where the Council had under-accrued for various items of capital expenditure that were invoiced post year-end.
- Our testing identified a grant accrued for in error as the agreement was not signed and the conditions of the grant unmet as at the balance sheet date. This grant totaled 300k. Management have adjusted the final statement of accounts to correct this.
- As part of management's own quality control procedures, an amount £852k revenue related to a waste contract that is under dispute with Derbyshire County Council was identified as unrecorded. Management have adjusted the final statement of accounts to correct this.
- We are satisfied that the level of undetected misstatements is sufficiently low to enable us to conclude that no material misstatement has arisen as a result of fraud in revenue and expenditure recognition.



## Areas of Audit Focus

### Significant risk

#### Misstatements due to fraud or error

##### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

##### What judgements are we focused on?

In our Audit Planning Report we communicated that we consider that management are in a position to manipulate the financial position via entries within the Movement in Reserves Statement.

##### What did we do?

- Documented our understanding of the processes and controls in place to mitigate the risks identified, and walked through those processes and controls to confirm our understanding.
- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- Reviewed the calculation of management's material accruals, estimates and provisions for evidence of management bias;
- Evaluated the business rationale for any significant unusual transactions;
- Understood the oversight given by those charged with governance of management process over fraud;
- Reviewed the accounting adjustments processed in the movement in reserves statement to ensure consistency with other supporting disclosure notes.

##### What are our conclusions?

- We have not identified any evidence of material management override.
- Other than the adjustment made to the accounts for an overstated insurance provision (£369k) where the recognition criteria had not been met as their was no obligation arising as a result of a past event, we have not identified any instances of inappropriate judgements being applied.
- We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.



## Areas of Audit Focus

# Significant risk

### Valuation of land and buildings

#### What is the risk?

The fair value of Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

#### What judgements are we focused on?

We focused on the following:

- The adequacy of the scope of the work performed by the value including their professional capabilities
- The reasonableness of the underlying assumptions used by the Authority's valuer

#### What did we do?

- Review each class of asset and the valuation approach adopted to assess where the risk of material misstatement is higher in order to target our testing.
- Evaluate the competence, capabilities and objectivity of management's specialist.
- Review any terms of engagement or instructions issued to the valuer to ensure these are consistent with accounting standards.
- Engage our valuation specialists to support our testing strategy and evaluate the work of the Council's valuer.
- Perform appropriate tests over the completeness and appropriateness of information provided to the valuer.
- Review the classification of assets and ensure the correct valuation methodology has been applied.
- Ensure the valuer's conclusions have been appropriately recorded in the accounts.

#### What are our conclusions?

- The Council's PPE has been valued for the first time in 2017/18 by the District Valuation Office (DVO).
- We have reviewed the instructions and data provided to the valuer by the Council. We identified no issues.
- We have obtained input from EY's own valuation experts on the work of the DVO and their qualifications.
- Our valuation specialist has reviewed the valuation methods used by management's specialist and has raised no material concerns.
- Our valuation specialist has reviewed in detail the valuations for a sample of individual assets of high value. This has raised no material concerns.
- For the sample of assets examined, we are able to conclude that the assets have been classified correctly in the financial statements.



## Areas of Audit Focus

### Significant risk

#### Move to Open Housing Rent System

##### What is the risk?

The Council has implemented a new Housing Rents system in year (Open Housing). Any significant system change creates risks associated with data migration and integrity which could result in a material misstatement.

##### What did we do?

- Planned to carry out a review of Internal Audit's planned work on the system migration to inform our risk assessment and planned audit response.
- Reviewed the Council's approach and execution of the transfer of data to the new system. Performed tests on data migration to gain assurance on the opening balances.
- Performed testing on populations from both before and after the new system was implemented.

##### What are our conclusions?

- We were unable to review the work of internal audit as this work has not been carried out at the date of writing.
- The Council reconciled the closing receivables listing in the old system with the opening receivables in the new Open Housing system and we have substantively tested this reconciliation, finding no issues.
- No reconciliation was performed by the Council with respect to the income recorded in the general ledger to confirm that income had not been omitted or double counted on transition to the new system. We have performed a predictive analytical review of housing rental income for the entire 12 month period and as a result are satisfied that the rental income for the year is free from material misstatement.
- The client has prepared weekly postings from the rental income system (both old and new) to the general ledger. We have reviewed these for the week either side of system transition date. We noted that in the week following transition, approximately  $\frac{3}{4}$  of the income was misposted (£863k). This error was repeated and not corrected until several months after the system transition date (total correction of £17.3m). This highlights the importance of reconciling income on a timely basis.
- We have performed completeness testing on rental income, selecting a sample of council dwellings included in property, plant and equipment and ensuring that rental income for those properties is being included in the financial statements. No issues were noted as a result of this work.



# Areas of Audit Focus

## Other areas of audit focus

### Pension Liability Valuation

#### What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Derbyshire County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £376.9 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

#### What judgements are we focused on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Authority's expert.
- Ensuring the information supplied to the actuary in relation to Derby City Council was complete and accurate
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Hymans Robertson.

#### What did we do?

- Obtained assurances over the information supplied to the actuary in relation to Derby City Council;
- Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team;
- Reviewed the outturn, where available, of the actuarial estimates; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

#### What are our conclusions?

We identified one unadjusted audit difference which related to the Council's share of the outturn value of pension fund assets compared to the actuaries estimate.

The Pension Scheme Actuary calculates the value of the Council's share of the total scheme to be included in the financial statements. In performing our audit procedures on the notified balances we observed that there was a large difference between the asset value of the total fund which the Actuary had used in their calculations, and the asset value of the fund as disclosed in the Derbyshire County Council Pension Scheme draft financial statements as at 31 March 2018. We performed a calculation of the estimated impact that this would have on the accounts of Derby City Council as follows:

Estimated total fund value	4,606,000,000
Actual fund value:	4,619,376,000
Variance:	(13,376,000)
Derby City share of the variance	2,370,000

This variance has no impact on reported surplus for the year, and would only increase the pension assets and pension reserve. Management have decided not to adjust the statement of accounts in respect of this item on the grounds of materiality and we concur with their decision.



## Areas of Audit Focus

### Other areas of audit focus

#### PFI Financing

##### What are our conclusions?

- We have confirmed that there have been no significant new PFI contracts or contract variations in the year.
- There were no material misstatements identified as a result of our procedures.

##### What is the risk?

The Council has a number of assets held under PFI arrangements. Four of these are recorded on the Council's balance sheet, one is not. Such arrangements are complex and substantial in value.

##### What did we do?

Our approach has focussed on:

- Obtaining and documenting an understanding of the schemes
- Considering whether the scheme falls within IFRIC 12 and should be accounted for on balance sheet
- Ensuring the outputs from the accounting model are correctly reflected in the financial statements, and relevant disclosures have been made
- Discussed with Management progress of contract audit activity.

#### Minimum Revenue Provision

##### What are our conclusions?

- We have confirmed that Management have applied the MRP policy consistently in 17/18 as expected.

##### What is the risk?

The Council updated its MRP policy in 2016/17. There was no further change in policy planned for 2017/18 therefore whilst we believe this poses higher inherent risk due to the complex nature of the calculations, we do not believe it to pose a significant risk because the likelihood of material error is not considered significant

##### What did we do?

Our approach has focussed on:

- Reviewing the Council's model for MRP calculation to confirm that it is consistent with the Regulations.



## Areas of Audit Focus

### Other areas of audit focus

#### Earlier deadline for production of the financial statements

##### What is the risk?

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts has been brought forward with draft accounts needing to be prepared by 31 May and the publication of the final audited accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements.

The Council now has less time to prepare the financial statements and supporting working papers. As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit.

##### What did we do?

- Worked with the Council to engage early to facilitate early substantive testing where appropriate.
- Provided an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- Worked with the Council to implement EY Client Portal, this will:
  - Streamline our audit requests through a reduction of emails and improved means of communication;
  - Provide on-demand visibility into the status of audit requests and the overall audit status;
  - Reduce risk of duplicate requests; and
  - Provide better security of sensitive data.
- Agreed the team and timing of each element of our work with you.
- Agreed the supporting working papers that we require to complete our audit.

##### What are our conclusions?

The Council met the 31 May deadline for publication of its draft statement of accounts in accordance with the regulations on authorisation of accounts, defining and advertising the inspection period.

Regulation 15 (2a) ii) requires that the Annual governance statement (AGS) be published alongside the draft statement of accounts. This regulation was not complied with, but we note that the AGS was published in the audit and accounts committee papers for the 19 June 2018 meeting.

The Council have channelled significant resource into the external audit process, with two individuals primarily focused on managing and responding to external audit queries and information requests.

As noted on page 24, the Council's own quality review processes identified several misstatements in the draft financial statements prior to the external audit commencing. The early deadline for production of the financial statements was likely a contributory factor in these misstatements arising.



## Areas of Audit Focus

### Other areas of audit focus

#### Follow up of statutory written recommendations issued June 2017

##### Background

EY issued written recommendations to the Council under s24 of the Local Audit and Accountability Act in June 2017.

During our 17-18 audit we have followed up progress on the Council's response to the recommendations, through a combination of observation of the operation of the control environment during our interim and year end audit procedures, discussion with Officers and staff at the Council, as well as internal audit.

##### What are our findings?

- Adherence to statutory reporting timetables is much improved, as evidenced by the Council's success in publishing a draft statement of account by the statutory deadline of 31 May 2018.
- The quality of working papers prepared to support the draft statement of accounts is in the main much improved, however there is still progress to be made in areas such as capital additions.
- Our interim procedures (performed through the period October 2017 - February 2018) identified various areas where reconciliations were not being performed on a timely basis:
  - We noted a lack of timely reconciliations between the housing benefits system and the general ledger. At February 2018 reconciliations had only been performed up to the end of September 2017.
  - During our interim procedures, we noted that monthly reconciliations between the payroll system and the general ledger were not being performed. To 'catch-up' the first 11 months of the year were all reconciled on the 8 March 2018.
- Accountability of individual service teams when providing information through to the Central finance team is improved but there are still areas where more needs to be done. The information provided to the Central finance team in respect of penalty parking charges outstanding was so unreliable that the prior year data had to be included in the draft statement of accounts as a proxy for the current year data.

##### What are our conclusions?

Significant improvement in the year end accounts close down and accounts production process has taken place. Our observation is that this has been as a result of significant dedicated resource being applied by the Council to the external audit process, as opposed to an embedded improvement in monthly financial reporting processes as business as usual.

It is now over 12 months since we presented our statutory recommendations to the Council. Whilst we understand from discussions with internal audit that their follow-up work on the Council's response to the recommendations is now complete, there has been no formal reporting to the Audit and Accounts Committee giving independent assurance on the extent of progress made. In our view, this should be done as a matter of priority.



## 03 Audit Report



# Audit Report

## Draft audit report

### Our proposed audit report

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DERBY CITY COUNCIL

##### Opinion

We have audited the financial statements of Derby City Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- Related financial statement notes 1 to 47 and Group financial statement notes
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and related notes 1 to 9,
- Collection Fund and the related notes 1 and 2.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Derby City Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

##### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Strategic Director of Corporate Resource's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Director of Corporate Resource has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

##### Other information

The other information comprises the information included in the Statement of Accounts set out on pages 1 to 14, other than the financial statements and our auditor's report thereon. The Strategic Director of Corporate Resources is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard



# Audit Report

## Draft audit report

### Our proposed audit report

Arrangements to secure economy, efficiency and effectiveness in the use of resources

#### *Basis for Adverse Conclusion*

Medium Term Financial Planning and strategic risk management  
Derby City Council has not had a corporate risk strategy in place for the full 2017-18 financial year. The Risk Management Strategy and Handbook was approved by the Audit and Accounts Committee in March 2018. The Strategic Risk Register was also reviewed and refreshed in March 2018.

The continued absence of a corporate risk strategy and risk register throughout the majority of the 2017-18 financial year leads us to conclude that the Council does not have proper arrangements in place to ensure informed decision making. The Council have not had a robust MTFP in place throughout the year ended 31 March 2018, with identified savings and sensitivity analysis performed. This demonstrates that the Council has not planned finances effectively over the entire year under review in order to effectively support the sustainable delivery of strategic priorities and maintain statutory functions.

#### Governance issues and member/officer relations

Derby City Council was the subject of a public interest report issued by Grant Thornton in June 2016 in relation to identified failures of governance at Derby City Council in the management of major projects and in relation to Member conduct.

In June 2017, the Local Government Association undertook a 'Corporate Peer Challenge' review at Derby City Council and raised similar concerns in respect of member/officer relations.

The recommendations made in the public interest report and repeated in the LGA review are evidence of weaknesses in proper arrangements for informed decision making.

#### Maintaining a sound system of internal control

We found that some of the basic financial controls were not working as expected, for example, the regular completion and review of reconciliations was not timely. This increases the risk of fraud or errors remaining undetected and provides evidence of weaknesses in proper arrangements for informed decision making. In July 2017 we issued a statutory written recommendation to the Council with respect to these issues.

#### Working with third parties effectively to deliver strategic priorities

Our observation is that the Council has not worked effectively with the Central Midlands Audit Partnership to deliver a robust internal audit function throughout the 2017-18 financial year. There has been poor relationships between the Council and the Internal audit function at times throughout the year which has reduced the assurance that the Council is able to obtain from the internal audit function. This provides evidence of weaknesses in proper arrangements for working with third parties effectively to deliver strategic priorities.

#### Management of A52 Junction improvement scheme

The original estimated total scheme cost within the Council's capital programme was £14.906m. In March 2018, Cabinet approved £2.157m, within the Highways and Transport programme, to fund the delivery of ancillary works to the main A52 junction improvement scheme – taking the total planned spend to £17.063m. In late March 2018 it became apparent that there were significant previously undisclosed overspends on the project. This provides evidence of weaknesses in proper arrangements for informed decision making.

#### *Adverse conclusion*

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in August 2017, we are not satisfied that, in all significant respects, Derby City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.



# Audit Report

## Draft audit report

### Our proposed audit report

#### Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

In respect of the following we have matters to report by exception:

- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;

Under section 24 of the Local Audit and Accountability Act 2014, we may designate any audit recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response.

On 27 June 2017 we issued a report containing recommendations concerning the Authority's corporate governance designated under section 24

#### Responsibility of the Strategic Director of Corporate Resources

As explained more fully in the Statement of the Strategic Director of Corporate Resources' Responsibilities set out on page 15, the Strategic Director of Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Strategic Director of Corporate Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



# Audit Report

## Draft audit report

### Our proposed audit report

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in August 2017, as to whether Derby City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the [name of body] put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Derby City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

### Use of our report

This report is made solely to the members of Derby City Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Derby City Council and Derby City Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Stephen Clark (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Birmingham  
Date

The maintenance and integrity of the Derby City Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



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## Audit Differences



# Audit Differences

## Summary of corrected differences

As part of their own quality control procedures after the publication of the draft statement of account, the Council found the following differences (over £329k) which have been adjusted in the final statement of account:

Corrected misstatements 31 March 2018 (£'000)	Effect on the current period:	Balance Sheet (Decrease)/Increase				
		Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/(Credit)	Assets non current Debit/(Credit)	Liabilities current Debit/(Credit)	Liabilities non-current Debit/(Credit)
Flex Homelessness Grant 2017/18 accrued in error	344	(344)				
Prepayment misclassified as a debtor in error as it had not actually been paid so should have been a reduction to creditors.		(1,311)			1,311	
Miscoding of maintenance fees on HRA between management fees and maintenance	506 (506)					
Misclassification of two assets as 'Assets Held For Sale' rather than Surplus		(1,150)		1,150		
Waste disposal contract correction to reflect amounts recoverable under contract	(852)				799	
		53				

## Audit Differences

### Summary of corrected differences

In addition to the differences identified by the Council in their own quality control procedures noted on the previous page, we found X audit differences over our reporting threshold of £329k which management have corrected in the final statement of account:

Corrected misstatements 31 March 2018 (£'000)	Effect on the current period:	Balance Sheet (Decrease)/Increase				
		Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/(Credit)	Assets non current Debit/(Credit)	Liabilities current Debit/(Credit)	Liabilities non-current Debit/(Credit)
Overstatement of insurance provision	(369)				369	
Pupil premium grant income and expenditure overstated by £3.321m due to a classification error	3,247 (3,247)					
Income misclassified as fees, charges and service income rather than grant income. (Relating to Derby Moor Sixth Form Funding)	631 (631)					
Correction of parking charges receivables balances	360	(360)				
Correction of parking charges doubtful debt provision	(347)	347				
Overstatement of cash by Derby City Council on transition of a school to Academy status		(502)				502
Interest income and expense grossed up in Note 8 and CIES/EFA	10,984* (10,984)					

\* Prior year statements also corrected for the same error (£11,164k)

### Summary of disclosure differences

In addition we identified a number of disclosure differences during the course of our audit procedures which were corrected by management in the final statement of accounts.



# Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

## Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit & Accounts Committee and provided within the Letter of Representation:

Unadjusted misstatements 31 March 2018 (£'000)	Effect on the current period:	Balance Sheet (Decrease)/Increase				
		Assets current Debit/(Credit)	Assets non current Debit/(Credit)	Liabilities current Debit/(Credit)	Liabilities non-current Debit/(Credit)	Reserves Debit/(credit)
Derby City Council's share of the pension asset value per IAS 19 report understated compared to Derbyshire County Council Pension Fund accounts			2,370			(2,370)
Errors identified in creditors cut-off		810		(810)		
2016-17 expenditure cut-off error	(438)					438



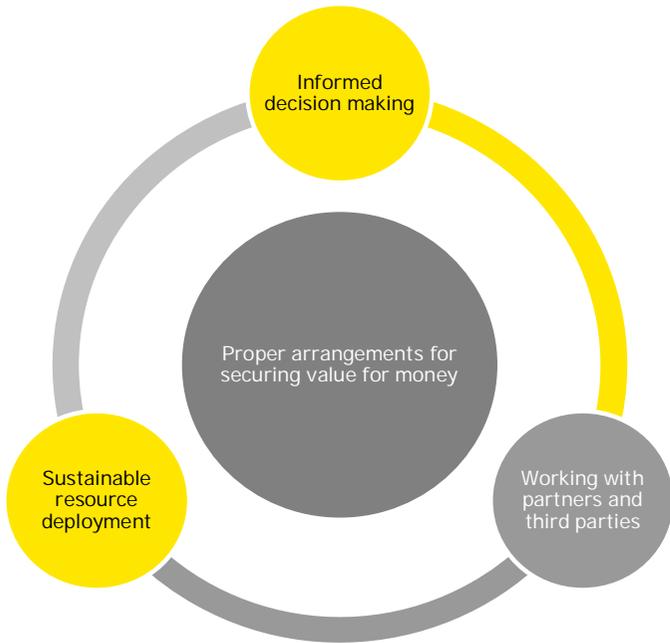
05

# Value for Money Risks





# Value for Money



## Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- § Take informed decisions;
- § Deploy resources in a sustainable manner; and
- § Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

## Overall conclusion

In our Audit Planning Report we identified six significant risks to our value for money conclusion. Since the publication of our Audit Planning Report, we have identified a further significant risk to our value for money conclusion, being the overspend on the A52 capital project affecting the criterion, 'informed decision making' - specifically:

- Understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management; and
- Managing risks effectively

We performed the work set out in our audit plan and detailed on the following pages of this report in response to these risks and have concluded that a qualified 'adverse' VFM conclusion continues to be appropriate for the 2017/18 financial year.

## Significant risk: June 2016 Public Interest Report

Grant Thornton issued a Report in the Public Interest in June 2016 which highlighted governance issues which remained present in the 2016/17 year of account. This report, and the Council's response to it therefore presents a significant risk to our VFM conclusion.

Work carried out on the significant VFM risk	What arrangements did this affect?	What are our findings?
<p>Our approach has focussed on:</p> <ul style="list-style-type: none"> <li>§ Reviewing details of Public interest report and consider points within that relate to the 2017/18 year of account.</li> <li>§ Reviewing the Council's progress towards addressing the points raised in the public interest report.</li> </ul>	<p><u>Informed Decision Making</u></p> <p>Acting in the public interest, through demonstrating and applying the principles and values of sound governance.</p>	<p>We have performed the work as set out in our Audit Plan.</p> <p>The only remaining matter documented in the PIR which has an ongoing implication for DCC is the quality of member/officer relations. This matter was raised again in the Local Government Association report of July 2017. We therefore conclude that this is evidence of weakness in arrangements for Informed Decision Making – specifically, acting in the public interest, through demonstrating and applying the principles and values of sound governance.</p>

## Significant risk: Provision of internal audit services

EY have attended all audit committee meetings held throughout the 2016-17 reporting period. In our view, the reporting to the Committee by internal audit is superficial, and the challenge provided by the audit committee to the matters raised by internal audit is often weak. We have not seen evidence of Officers being held to account for issues highlighted in internal audit reports but not addressed in a timely manner, nor evidence of challenge where risks are considered 'acceptable' by Officers. In early 2017 the Council have initiated a review of the internal audit service offering, and a number of weaknesses have been identified which have led to a transformation programme being initiated.

Work carried out on the significant VFM risk	What arrangements did this affect?	What are our findings?
<p>Our approach has focussed on:</p> <ul style="list-style-type: none"> <li>§ Reviewing the findings of the independent review of the internal audit service provision; and</li> <li>§ Monitoring the implementation of the transformation programme.</li> </ul>	<p><u>Sustainable Resource Deployment</u></p> <p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.</p>	<p>We have performed the work as set out in our Audit Plan.</p> <p>Throughout 17-18 there has been a significant amount of pressure on the internal audit provision and the degree of respect it has been afforded within the organisation. Under the direction of the Strategic Director of Corporate Resources and S151 officer, we have observed the situation improving. Internal audit now have unfettered access to the audit committee, and are present to present the details of their work to committee. Whilst this issue is therefore being actively addressed, we cannot conclude that the arrangements have been in place throughout the year. We therefore note this as contributing to our Adverse VFM conclusion.</p>



## Significant risk: July 2017 written recommendations under s.24 of the Local Audit and Accountability Act 2014

In June 2017 EY exercised its powers under the Local Audit and Accountability Act 2014 and issued written recommendations to the Council. Although some progress had been made, it was our view that given the significance of the control weaknesses, insufficient progress has been made in the period following our report of 23 September 2016 to appropriately address the issues and strengthen the Council's control environment. The control issues identified across a significant number of areas of the Finance and associated supporting functions, most noticeably in respect of the Estates function, are pervasive and led to a significant number of errors identified in the 15/16 published draft Financial Statements relating to both the current and prior year accounting periods. This could undermine the Council's ability to effectively demonstrate it has proper arrangements to safeguard and make informed decisions in respect of public funds and assets.

Work carried out on the significant VFM risk	What arrangements did this affect?	What are our findings?
<p>Our approach has focussed on:</p> <ul style="list-style-type: none"> <li>§ Reviewing the action plan created by the Council to address the issues raised in the written recommendations; and</li> <li>§ Monitoring progress against that action plan.</li> </ul>	<p><u>Informed Decision Making</u></p> <p>Managing risks effectively and maintaining a sound system of internal control'</p> <p>And</p> <p><u>Sustainable Resource Deployment</u></p> <p>Managing and utilising assets effectively to support the delivery of strategic priorities</p>	<p>We have performed the work as set out in our Audit Plan.</p> <p>Whilst the Council has clearly made progress against addressing many of the control issues communicated in our written recommendations, there has been a continual journey throughout 17-18 such that we are unable to conclude that these controls are now embedded into 'business as usual'. On that basis, whilst noting the improvements made in our ISA260 reporting, we will continue to highlight the robustness of internal controls in our VFM conclusion which remains adverse for 17-18.</p> <p>We also note that at the time of writing, the internal audit work in respect to the follow-up of s24 recommendations has still not concluded and reported to the Audit and Accounts Committee. Given that 12 months have now past since our statutory recommendations were made, it is our view that the internal audit report should be prioritised and any recommendations arising from it should be actively monitored by the Audit and Accounts Committee to ensure a more timely resolution.</p>



## Significant risk: Robustness of medium term financial planning

The Council's Medium Term Financial Plan and planning process is not sufficiently robust. Savings targets are not accompanied by detailed plans on how the savings are to be achieved. There is no provision for scenario planning to identify financial sensitivities within the Medium Term Financial Plan. This therefore presents a significant risk to our Value For Money conclusion.

Work carried out on the significant VFM risk	What arrangements did this affect?	What are our findings?
<p>Our approach has focussed on:</p> <ul style="list-style-type: none"> <li>§ Reviewing the arrangements that the Council has put in place for identifying medium term savings requirement;</li> <li>§ Understanding the operation of Medium Term Financial Plan and Planning activities with the s151 Officer to confirm nature and extent of any improvements made from prior years.</li> <li>§ Evaluate the impact of any audit findings on the reported financial position.</li> </ul>	<p><u>Sustainable Resource Deployment</u></p> <p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</p>	<p>We have performed the work as set out in our Audit Plan.</p> <p>We understand from our discussions with the client that every saving identified as part of the MTFP process now requires a TMS form to be completed which indicates a plan as to how the saving will be achieved, who is responsible for this and it must be signed by the relevant budget holder. This was implemented in-year (Sept 17). This is an indication that the council is seeking to improve the accountability of officers and increasing the planning behind MTFP savings. Sensitivity analysis will also be included within the MTFP - enabling the council to make plans for various scenarios.</p> <p>We have obtained a copy of a TMS form (18 DCC TM Saving Pro-forma signed off by Director of Finance). This details a 4.194m saving in Treasury Management, which has been signed off by the DoF.</p> <p>We have also performed a review of the MTFS. From this it can be noted that the council has not identified savings of £7,225k in 2020/21, rising to £11,233k in 2021/22.</p> <p>Whilst the Council has clearly made progress to improve the robustness of medium term financial planning during 17-18, this is an ongoing journey which has been impacted by the presence of 2 s151 officers throughout the year. The present incumbent has been made permanent until at least 31 July 2019 which should provide some stability. On that basis, whilst noting the improvements made in our ISA260 reporting, we will continue to highlight the robustness of the MTFP in our VFM conclusion which remains adverse for 17-18.</p>



## Significant risk: Results of regulatory review and commentary

The Council has received various commentary throughout the year from regulatory bodies, the tone of which has been mixed. Recent findings in respect of education provision across the City from Ofsted and more broadly across the Council's activities from the Local Government Association (LGA) Peer Review indicate a significant risk to our VFM conclusion.

Work carried out on the significant VFM risk	What arrangements did this affect?	What are our findings?
<p>Our approach has focussed on:</p> <ul style="list-style-type: none"> <li>§ Discussions with Council Officers on actions taken to address the issues raised by Ofsted and the LGA peer review.</li> </ul>	<p><u>Working with partners and other third parties</u></p> <p>Working with third parties effectively to deliver strategic priorities</p>	<p>We have performed the work as set out in our Audit Plan.</p> <p>We have met with the Strategic Director of People Services to understand the Council's response to the Ofsted commentary and concluded that the Council have arrangements in place to ensure its statutory duties are delivered.</p> <p>The LGA peer review report was, in the main, not a positive document. Issues were raised around the Council's lack of planning and project management in many areas; weaknesses in decision making; poor internal control environment; Member/Officer relationships; and poor reputation with respect to the finance function and accounts delivery. All of these areas were already covered in our existing Value For Money significant risk work with the exception of the 'lack of planning and project management' but this has been picked up by the additional VFM risk added at the execution stage with respect to the overspend on the A52 capital project (see below).</p> <p>We have therefore concluded that this particular significant risk does not contribute further to our adverse value for money conclusion.</p>



## Significant risk: Absence of corporate risk strategy and risk register

There was no corporate risk strategy in place that covered 2016/17. The draft strategic risk register went to Chief Officer Group in November 2015, as a working copy for them to comment on. It was agreed that a clearer definition of the risk appetite and what would and would not be tolerated was needed. At September 2017, the new strategy document was still in the process of being redrafted.

Work carried out on the significant VFM risk	What arrangements did this affect?	What are our findings?
<p>Our approach has focussed on:</p> <ul style="list-style-type: none"> <li>§ Understanding the progress made by the Council to prepare and embed a corporate risk strategy and risk management process.</li> </ul>	<p><u>Informed Decision Making</u></p> <p>Managing risks effectively and maintaining a sound system of internal control</p>	<p>We have performed the work as set out in our Audit Plan.</p> <p>We reviewed the risk management activities which have taken place throughout the year in response to this issues raised in our previous year Value For Money conclusions and note that improvements are being implemented but these have not been embedded throughout the 17-18 year under audit and therefore we continue to issue an adverse conclusion including risk management arrangements.</p>



## ADDITIONAL Significant risk: Overspend of A52 capital project

There was no corporate risk strategy in place that covered 2016/17. The draft strategic risk register went to Chief Officer Group in November 2015, as a working copy for them to comment on. It was agreed that a clearer definition of the risk appetite and what would and would not be tolerated was needed. At September 2017, the new strategy document was still in the process of being redrafted.

Work carried out on the significant VFM risk	What arrangements did this affect?	What are our findings?
<p>Our approach has focussed on:</p> <ul style="list-style-type: none"> <li>§ Discussions with Council Officers on actions taken to understand and address the issues which have led to the overspend</li> <li>§ Discussions with internal audit on the scope of their involvement in investigating the overspend</li> </ul>	<p><u>Informed Decision Making</u></p> <p>Understanding and using appropriate and reliable financial and performance information to support informed decision making</p> <p>and</p> <p>Performance management Managing risks effectively.</p>	<p>The overspend on the A52 project was unexpected and reported to Council/Leadership very late. This shows a lack of control around the ability to take informed decisions.</p> <p>We held a discussion with the Acting Chief Executive and the s151 officer as soon as the overspend became known and reviewed a paper prepared by the Acting Chief Executive setting out the issue and the Council's proposed response to it.</p> <p>We have held a meeting with internal audit to discuss their role in the task to understand what had gone wrong in the process and the timelines for reporting findings, which appear appropriate.</p> <p>We have challenged whether there could be other substantial capital projects where an unknown overspend was 'hidden' – however, there are currently no other significant capital projects ongoing at present which reduces the risk.</p>



# 06 Other reporting issues



## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We are yet to conclude our work in this area.

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014.

In June 2017, we used our statutory powers under Section 24 of the Local Audit and Accountability Act 2014 and issued written recommendations to the Council. This followed significant delays in the finalisation of the Council's 2015/16 Statement of Account and an unacceptable length of time being taken to respond to and correct control weaknesses identified in our audit procedures, and first communicated to the Audit and Accounts Committee in September 2016

# Other reporting issues



### Other matters

#### Quality of the financial statement preparation process

We thank officers for their hard work in the preparation of much improved working papers.

#### Assessment of new Accounting Standards

- IFRS 9 Financial Instruments: The 2018/19 Code introduces IFRS 9 on financial instruments. Your view is that the impact on the Authority's financial statements will be immaterial. The Council will need to keep this standard under continued focus during 2018/19 because statutory overrides may be introduced by Central Government
- IFRS 15 Revenue from Contracts with Customers: Similarly the 2018/19 Code of Practice on Local Authority Accounting for the United Kingdom determines how IFRS 15 Revenue from Customers with Contracts will be adopted by local government bodies. In your view IFRS 15 will not have a material impact on this Council's single entity financial statements as the vast majority of the Council's income streams are taxation or grant based. However, we note that the Council are yet to start their preparations for the implementation of IFRS 15 and should ensure that this is addressed as a matter of priority.



07

## Assessment of Control Environment

# Assessment of Control Environment

## Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

As a result of the work undertaken we have identified some deficiencies in internal control as follows:

- Debtors listings provided for audit contained several very old balances dating as far back as 2006. For the most part these were fully provided against, but after over 10 years on the ledger, should be written off.
- We identified a risk of leavers being paid after they have left the Authority's employment. This arose because individuals do not get removed from the payroll system until after the e-form has been reviewed, and there is often a significant delay in review of these forms.
- We noted a lack of timely reconciliations between the housing benefits system and the general ledger. At February 2018 reconciliations had only been performed up to the end of quarter 2.
- We noted misstatements in the related party transactions disclosures resulting from incomplete declarations of interest being submitted by Councillors.
- During our interim procedures, we noted that monthly reconciliations between the payroll system and the general ledger were not being performed on a timely basis. The year end reconciliation was performed for external audit purposes.
- As noted on page 13, when transitioning the rental income system from Academy to Open Housing, there was a lack of documented testing, control and reconciliation of income transactions to evidence proper due-diligence around the data migration.

The matters reported here are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.



08

Independence

## Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 20 March 2018.

We complied with the APB Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit & Accounts Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit & Accounts Committee on 31 July 2018.

We confirm we have not undertaken any non-audit work outside the PSAA Code requirements.

# Independence

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## Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in the table below has been provided on a contingent fee basis.

As at the date of this report, we have been retained to provide audit services for from 1 April 2018. In addition the Authority has agreed to our proposal to provide the Housing Benefit Subsidy Assurance service from 2018/19 for 12 months.

# Independence

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

	Final Fee 2017/18	Planned fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
		£		£
Total Fee - Code work	TBD	142,553	142,553	208,390
Total audit	TBD	142,553	142,553	208,390
Housing Benefits Subsidy Claim	TBD	20,846	20,846	19,725
Teachers' Pension Audit	TBD	TBD	N/A	6,000
Pooling of Housing Capital Receipts	TBD	TBD	N/A	4,500
Total non-audit services	TBD	20,846	20,846	30,225
Total fees	TBD	163,399	163,399	238,615



09

## Appendices

## Audit approach update

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Our approach to the audit of the balance sheet has not change from the prior year audit.

## Appendix A

Balance sheet category 	Audit Approach in current year 	Audit Approach in prior year 	Explanation for change 
Property plant and equipment	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Heritage assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Investment property	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Long term debtors	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Assets held for sale	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Short term investments	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Cash and cash equivalents	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Borrowings	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Finance lease liabilities	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Creditors	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Provisions	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Pension scheme liabilities	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Reserves	Substantively tested all relevant assertions	Substantively tested all relevant assertions	

## Appendix B

# Summary of communications

Date 	Nature 	Summary 
10 July 2017	Meeting	The Senior Manager met with the Monitoring Officer to discuss follow up of Grant Thornton's public interest report, and other compliance with laws and regulations matters.
29 May 2018	Meeting	The partner in charge of the engagement and the senior manager met with the Acting Chief Executive and the s151 Officer to discuss role changes in the administration and officer group as well as emerging audit issues.
29 May 2018	Meeting	The Senior Manager met with the head of internal audit to discuss progress of their work, plans for next year, and issues arising.
7 June 2018	Conference call	The partner in charge of the engagement, and the senior manager held a conference call with the newly appointed Leader of the Council to discuss A52 capital project overspend and the Council's response to it.
19 June 2018	Meeting	The partner in charge of the engagement, and the senior manager met with the newly appointed Chairman of the Audit and Accounts Committee to discuss role of the committee, and matters impacting our value for money conclusion.
12 July 2018	Meeting	The Senior Manager met with the Acting Chief Executive and the s151 Officer to discuss emerging issues impacting the audit of the 17/18 statement of accounts.
19 July 2018	Meeting	The Senior Manager met with the head of internal audit to discuss the results of their work in reviewing the actions taken in response to the s24 written recommendations and scoping of their work in respect of the A52 capital project overspend.

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.

## Appendix C

# Required communications with the Audit & Accounts Committee

There are certain communications that we must provide to the Audit & Accounts Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit & Accounts Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	March 2018 - Audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	March 2018 - Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	July 2018 - Audit results report

# Appendix C

## Our Reporting to you

Required communications	What is reported?	When and where
Public Interest Entities	<p>For the audits of financial statements of public interest entities our written communications to the Audit &amp; Accounts Committee include:</p> <ul style="list-style-type: none"> <li>• A declaration of independence</li> <li>• The identity of each key audit partner</li> <li>• The use of non-member firms or external specialists and confirmation of their independence</li> <li>• The nature and frequency of communications</li> <li>• A description of the scope and timing of the audit</li> <li>• Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits</li> <li>• Materiality</li> <li>• Any going concern issues identified</li> <li>• Any significant deficiencies in internal control identified and whether they have been resolved by management</li> <li>• Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the Audit &amp; Accounts Committee</li> <li>• Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof</li> <li>• The valuation methods used and any changes to these including first year audits</li> <li>• The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework</li> <li>• The identification of any non-EY component teams used in the group audit</li> <li>• The completeness of documentation and explanations received</li> <li>• Any significant difficulties encountered in the course of the audit</li> <li>• Any significant matters discussed with management</li> <li>• Any other matters considered significant</li> </ul>	<p>March 2018 - Audit planning report            July 2018 - Audit results report</p>

## Appendix C

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about Derby City Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	July 2018 - Audit results report
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Audit &amp; Accounts Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	July 2018 - Audit results report
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit &amp; Accounts Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Audit &amp; Accounts Committee responsibility.</li> </ul>	<p>July 2018 - Audit results report</p> <p>Enquiries were made during the audit, and there are no issues to report to you.</p>

## Appendix C

		Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	<p>July 2018 - Audit results report</p> <p>No issues to report</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>March 2018 - Audit planning report</p> <p>July 2018 - Audit results report</p>
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	<p>We have received all requested confirmations</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>• Enquiry of the Audit &amp; Accounts Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit &amp; Accounts Committee may be aware of</li> </ul>	<p>We have made inquiries of management, the Monitoring Officer and those charged with governance.</p> <p>We have not identified any material instances or non-compliance with laws and regulations.</p>
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>• Significant deficiencies in internal controls identified during the audit.</li> </ul>	<p>We have not identified any significant deficiencies in internal controls.</p>

# Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	July 2018 - Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	July 2018 - Audit results report No issues to report.
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	July 2018 - Audit results report No circumstances.
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	March 2018 - Audit Planning Report July 2018 - Audit results report
Certification work	<ul style="list-style-type: none"> <li>Summary of certification work</li> </ul>	No certification work carried out to date.

# Draft Management representation letter

## Management Rep Letter

To be prepared on the entity's letterhead]  
[Date]

Ernst & Young LLP  
1 Colmore Square  
Birmingham B4 6HQ

This letter of representations is provided in connection with your audit of the financial statements of Derby City Council ("the Council") for the year ended 31 March 2018. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Derby City Council as of 31 March 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to our attention by the auditor because we do not believe that they are material.

# Management representation letter

## Management Rep Letter

### B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
  - involving financial statements;
  - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
  - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
  - involving management, or employees who have significant roles in internal controls, or others; or
  - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and council financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and Audit & Accounts Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 30 July 2018.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

# Management representation letter

## Management Rep Letter

6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed to you all guarantees that we have given to third parties.
4. No claims in connection with litigation have been or are expected to be received.

### E. Subsequent Events

1. There have been no events subsequent to year end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

### F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Governance Statement and Narrative Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

### G. Comparative information – prior period adjustment

We represent, to the best of our knowledge and belief, the following:

1. The financial statements have been adjusted to reflect a change in the valuation of our long term investment in Entrust and to remove accumulated depreciation on assets revalued and disposed of in prior years.
2. The amounts involved are set out in Note 47 to the financial statements.
3. The comparative amounts have been correctly restated to reflect the above matter(s) and appropriate note disclosure of this (these) restatement(s) has (have) also been included in the current year's financial statements.

### H. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for

### I. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of non-current assets and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

# Management representation letter

## Management Rep Letter

### J. Accounting Estimates

#### Valuation of Pension Asset/Liabilities and Property, Plant and Equipment

1. We believe that the measurement processes, including related assumptions and models, used to determine the above accounting estimates have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the significant assumptions used in making the estimated valuations of Pension Asset/Liabilities and Property, Plant and Equipment appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Council.
3. We confirm that the disclosures made in the council financial statements with respect to the accounting estimates are complete and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the council financial statements due to subsequent events.

Yours faithfully,

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Don McLure  
s151 Officer

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Cllr Willoughby  
Chair of the Audit & Accounts Committee

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ED None

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